



Office of the City Auditor

Tuition Assistance Program Report No. 0202

January 3, 2003

The City needs to re-evaluate the Tuition Assistance Program to determine whether the Program is effective either as a means of funding coursework that improves job skills or as a means of attracting and retaining employees. While the Program has been structured within the parameters set out in the U.S. Code, authority to expend funds has been delegated to the department level with no effective compensating controls to ensure that requests are submitted in accordance with guidelines.

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January 3, 2003

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

Transmitted herewith is the report on the Tuition Assistance in the City of Scottsdale, Report No. 0202. This report serves to convey issues identified during the completion of an audit of the City's Tuition Assistance Program. Human Resources and Financial Services staff were very cooperative and helpful during our work. As you will be able to see from the status of items on the action plan, many of our recommendations have already been implemented.

We believe that it is time for the City to re-visit the purpose of the Tuition Assistance Program and re-evaluate how it fits with the needs of the organization in total. Over the past six years, the funding dedicated to the program has increased as tuition at the state universities has increased. For fiscal year 2001/2002 alone, the City paid out more than \$209,000 in tuition assistance payments. Because there are no program objectives and limited historical data, we were not able to determine whether the Program is effective either as a means of funding coursework that improve job skills or as a means of attracting and retaining employees.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

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City Auditor

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EXECUTIVE SUMMARY

The City Auditor's Office initiated this audit to evaluate the City's Tuition Assistance Program. The audit was approved by the City Council and included on the 2001/2002 Audit Plan. Fieldwork commenced in February 2002 and concluded in June 2002. Cheryl Barcala, Auditor-In-Charge, and Gail Crawford performed the work. Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing as required by Article III, Scottsdale Revised Code, §2-117 *et seq*, with the exception of the peer review requirement.

The objectives of the audit were to determine if:

- The Program currently adopted by the City adheres to federal requirements outlined for educational assistance programs.
- Controls currently in place are sufficient to ensure that funds are paid according to guidelines established by the City.
- Any other issues exist which may require review.

To make these determinations, we:

- Evaluated United States Tax Codes; Internal Revenue publications; and City guidelines, policies, and procedures to determine if the City is in compliance with federal regulations.
- Reviewed all tuition assistance applications processed during calendar years 1999, 2000, and 2001.
- Selected a sample of tuition reimbursement applications and reviewed the supporting documentation for compliance with established guidelines.

Concurrent with our work, the Human Resources Department moved forward with revisions to the Program. A new Administrative Regulation has been developed and preparations are underway to centralize the management and oversight of the Program. The Human Resources General Manager and the Learning and Organizational Development Director have read the audit report. Most recommendations are already addressed in the new Administrative Regulation. Others are under consideration. The written management response can be found in Appendix A.

Results in Brief

It has been more than eight years since the last significant modification to the Tuition Assistance Program. Since 1994, the date of the last revision, the City has undergone many changes, none of which is more significant than what

was experienced during fiscal year 2001/2002 as growth started to slow and the economy reacted to world events. These changes have negatively impacted city revenues, creating a situation in which programs need to be re-evaluated and consideration given to whether or not there is a higher priority for the funds or if program delivery can be restructured to be more efficient.

We believe that it is time for the City to re-visit the purpose of the Tuition Assistance Program and re-evaluate how it fits with the needs of the organization in total. Over the last six years, the amount provided per employee has grown incrementally as tuition at the state universities has increased. For calendar year 2002, the amount of assistance increased \$126 to an annual amount of \$2,268. With approximately 215 employees receiving various levels of assistance, the cost of the Program, which has averaged \$187,000 over the past three fiscal years, increased to \$209,000 for fiscal year 2001/2002.

In this same period, the City implemented changes in the funding of departmental-specific training. A new Administrative Regulation was developed to provide assurance that expenditures are necessary. Departments are required to document the need for continuing education and training as a supplemental budget item, effectively re-examining the amount requested by departments each budget year. However, this same oversight has not been given to the Tuition Assistance Program. In December 2001, even as the City was anticipating lower revenues, the Human Resources Department continued the previous trend and increased funding to keep up with state tuition rate changes. This is allowed to happen because the amount of assistance¹ is set outside the normal budget process.

We were not able to determine whether the Program is effective either as a means of funding coursework that improved job skills or as a means of attracting and retaining employees. Courses taken are not tracked and there are no efforts to monitor² the increase in the number of employees with college degrees or the retention of employees who participate. The Human Resources Department does not provide annual reports detailing the impact of the Program. Moreover, there have been no internal surveys as a means of determining whether or not current employees value the Program or would prefer other forms of training opportunities or other benefits. As such, there is

¹ The total budget for tuition assistance is set as part of the annual budget process. The amount of assistance that will be available to each qualified employee is set after the budget is adopted and, therefore, is not part of the budget review.

² The Human Resources Department monitors certain statistics such as participation by department, assistance per employee, and status of employment; statistics such as number of employees enrolled in a degree program or the length of employment after completion of a degree program are not tracked.

insufficient data to suggest that this Program deserves additional funding. Instead, we believe the City should focus on funding citywide training opportunities through the Human Resources Department or increasing the funds available for non-academic training or professional development at the department level.

To provide additional insight into program delivery, we compared the City's Program to guidelines established in the Internal Revenue Code and found that the Program offered by the City generally complies with the parameters set out in the U.S. Code. The amount provided falls under the maximum set for non-taxable assistance and eligibility is not structured to favor highly compensated individuals. The requirement for a minimum passing grade is allowed per Code and, in past years, the City has considered tuition paid for graduate course work to be additional compensation as required. We found, however, that the City does not provide reasonable notice of the Program to eligible employees, a requirement of the U.S. Code.

We also looked at the controls over the distribution of payments. We found that the Payroll Division has implemented sufficient controls to assure that requests for reimbursement will be capped at the appropriate amount per individual. With one exception, assistance provided to employees over the past three years fell within the limit provided. Assistance tracked on a calendar year basis reconciled to the amounts charged, on a fiscal year basis, against the tuition assistance budget. However, the expenditures paid out have consistently exceeded budgeted funds. Fiscal year 2002 was the first year, in the past four years, in which the budget was not exceeded. This outcome is the result of an increase in budget, not a reduction in requests for assistance.

Finally, we found significant room for improvement in the actual delivery of the Program. For many years, the City operated under a management philosophy that supported a decentralized structure with the expectation that departments take responsibility for the control environment. Changes, implemented in 1994, under this direction effectively distributed the responsibility for processing paperwork to more than 30 departmental representatives. As such, instead of limiting training to those with a true need and responsibility for program delivery, information related to changes in amounts of assistance and cost schedules must be distributed throughout the organization. Moreover, records are kept at the department level instead of being forwarded to a central repository. This practice results in a duplication of effort due to the fact that multiple individuals are responsible for record keeping, identifying when records should be destroyed, and completing the appropriate paperwork.

When management was pushed to the department level, the authority to expend funds was effectively delegated to a level that was not appropriate and compensating controls were not implemented. While funding for the Program was considered part of the Human Resources budget, payments were actually generated based on the signature of departmental representatives. Human Resources management, the area with the responsibility for oversight of the funds, did not undertake periodic reviews of paperwork to identify situations in which applications were submitted inappropriately. Moreover, departmental representatives, charged with processing the applications, did not receive sufficient training or instructional materials to allow them to carry out their duties adequately. Also, Human Resources did not undertake periodic audits of applications to identify situations in which re-training of departmental representatives was appropriate.

We looked at all requests for assistance (1,182 for a total of \$569,142) processed during 1999, 2000, and 2001 and found that the majority of requests were either incomplete, approved for payment even though the educational institution was not on the City's schedule of costs, or reflected an amount that did not agree with the schedule setting the appropriate amount to pay. Most of the errors were immaterial but in all, we estimate that the City paid approximately \$27,697³ in erroneous payments. Of this, \$23,560 is directly attributable to processing requests for classes that were taken as "pass/fail" when both the Administrative Guideline and the application clearly state that an employee must earn a "C" grade or better to receive assistance.

The Action Plan on the following pages outlines recommendations to:

- Increase the effectiveness of the Program.
- Reduce the financial commitment while continuing to offer a more structured Program.
- Improve the efficiency in which the Program is delivered.
- Strengthen the control environment to ensure that payments are appropriate and calculated according to Program criteria.
- Bring the Program into compliance with the City Charter and U.S. Code requirements.

Management's abbreviated responses are included in the action plan as well as the implementation status. The complete management response is included in Appendix A.

³ This amount does not include payments in situations in which the institution was not listed on the cost schedule. In the three years, requests for assistance totaling more than \$63,000 were processed for educational institutions that were not listed on the schedule of tuition rates.

Action Plan

No.	Recommendations	Management Response	Status
1.	<p>The City Manger should direct the General Manager, Human Resources, to:</p> <p>Align funding with the needs of the City.</p> <ul style="list-style-type: none"> Require Human Resources management to develop performance measures that can be used to evaluate the benefit of the Program. Require coursework or degree programs to be relevant to current or future employment with the City. Tie assistance to the employee's Professional Development Plan. Require submittal of a Program of Study, approved by an academic advisor or other authorized school representative, to document required coursework. Require the Learning and Organizational Director to review and approve the proposed coursework or the Program of Study prior to registration as a condition of participation. Establish a minimum length of employment and an acceptable performance rating as a condition of eligibility. Incorporate different rates for tuition assistance as a means of rewarding employees who demonstrate a willingness to put forth the effort necessary to achieve a grade higher than the standard "C." 	<p>Agree.</p> <p>Agree; reinforce this existing requirement in new AR and implement a pre-approval process to ensure consistent communication and compliance.</p> <p>Agree; address in new AR.</p> <p>Agree; address in new AR.</p> <p>Agree with approval by LO&D Director or designee; address in new AR.</p> <p>Agree to further assess such eligibility requirements in the context of finalizing the new AR.</p> <p>Agree to further assess this incentive concept in the context of finalizing the new AR.</p>	<p>Underway; implement by 07/03.</p> <p>Underway; ensure full compliance by 07/03.</p> <p>Implement by 07/03.</p> <p>Implement by 07/03.</p> <p>Implement by 07/03.</p> <p>Assess and implement as determined by new AR by 07/03.</p> <p>Assess and implement as determined by new AR by 07/03.</p>

No.	Recommendations	Management Response	Status
2.	<p>Modify the structure of assistance to reduce the cost of the Program.</p> <ul style="list-style-type: none"> • Cap the amount of assistance. • Document the City's right to cease financial assistance if budget is spent. • Limit the amount of assistance provided for graduate degrees or doctorate studies. • Create parity in the Program by pro-rating assistance provided to job-share employees and part-time employees. • Prohibit payment of assistance when employees receive other financial assistance such as reduced tuition rates, grants, or scholarships. 	<p>Annual employee caps exist now; we agree to establish other appropriate caps or controls to ensure that total program spending does not exceed the annual funding authorization.</p> <p>Agree to clarify this with new forms and new AR.</p> <p>Agree to assess limitations on graduate degrees or studies in the context of developing the new AR; level of job-relatedness, benefit to the organization, and fiscal impacts are among key factors to be considered.</p> <p>Agree to prorate assistance to eligible employees who work less than full-time.</p> <p>Agree to implement controls to not duplicate tuition assistance received from other sources</p>	<p>Underway; implement by 07/03.</p> <p>Underway; implement by 07/03.</p> <p>Assess and implement as determined by new AR by 07/03.</p> <p>Implement by 07/03.</p> <p>Implement by 07/03.</p>
3.	Clarify the purpose of tuition assistance funds and preclude use of the fund as a substitute for department approved training funds.	Agree with overall intent, however, some flexibility may be beneficial to meet City training requirements in most cost-effective way; will further assess in the context of finalizing the new AR.	Assess and implement by 07/03.
4.	Centralize the management and oversight of the Program.	Agree to centralize in Human Resources.	Transition to begin 01/03; complete by 07/03.
5.	Modify the Program to reduce the effort necessary to manage it.	Agree.	Transition to begin 01/03; complete by 07/03.
6.	Clarify the type of expenses covered under the Program.	Agree.	Transition to begin 01/03; complete by 07/03.

No.	Recommendations	Management Response	Status
7.	<p>Improvements in the internal control environment would provide assurance that assistance is provided according to set policy.</p> <ul style="list-style-type: none"> Require requests for assistance to be reviewed and approved by an appropriate level of management in Human Resources prior to submittal for payment. Require submittal of itemized invoices as a means of documenting what the employee paid. Insert a statement on the request form placing the employee and supervisor on notice that their signature represents that the information on the request is factual and correct. Require employees to print their name, in addition to the signature, as a means of establishing the name associated with the signature. Establish a policy and procedure for appropriate record keeping and take appropriate steps to obtain an approved records retention schedule. 	<p>Agree to implement centralized approval process utilizing L&OD Director or designee.</p> <p>Agree.</p> <p>Agree.</p> <p>Agree.</p> <p>Agree.</p>	<p>Implement by 01/03.</p> <p>Receipts to be required and reviewed 01/03, as part of centralized approval process.</p> <p>Implement by 01/03.</p> <p>Implement by 01/03.</p> <p>Underway; complete by 07/03.</p>
8.	Present the Tuition Assistance Program to the Council for review and approval.	The new AR will reinforce that this program is subject to annual funding review and authorization by the City Council as part of the budget review process for all programs.	Complete by 07/03.
9.	Develop a separate, written benefit plan to document the Program.	It is our understanding that the new AR will adequately address this issue; subject to further confirmation with legal counsel and management.	Complete by 07/03.
10.	Provide reasonable notice of the Program to eligible employees.	Agree.	Complete by 07/03.

BACKGROUND

For more than 20 years,⁴ as part of the City's efforts to promote professional development, the City has provided financial assistance to employees who pursue continuing education. The structure of the current Program is outlined in Administrative Guideline (AG)⁵ #375, *Tuition Assistance*. According to this AG, assistance will be provided to full-time, job-share, or part-time regular employees enrolled in work-related courses and any degree program.

Purpose: To promote professional development among City employees and provide financial assistance for courses that will mutually benefit the City of Scottsdale and the employees.

SOURCE: Administrative Guideline #375, dated July 4, 1994.

Participating employees will be reimbursed the cost of tuition, on a calendar basis, up to or equal to the cost of 18 credit hours at Arizona State University (ASU). The insert below shows the maximum financial assistance that was available for each of the past six years and the current year.

1996	1997	1998	1999	2000	2001	2002
\$1,782	\$1,836	\$1,890	\$1,980	\$2,070	\$2,142	\$2,268

There is no minimum length of employment prior to eligibility for full-time or job-share employees. However, according to a 1996 HR Brief (#63), part-time employees must have completed one full year of regular, part-time employment with the City and be considered a "quality performer." If these requirements are met, the City will reimburse the cost of tuition up to the amount available to a full-time regular or job-share employee but the cost per credit hour is limited to 50 percent. This means that, for calendar year 2001, a part-time employee would need to invest \$4,284 in tuition costs to receive the maximum amount available while a full-time employee would only need to invest \$2,142.

To participate, the employee registers and pays for the course, completes the instruction, and then submits a request for assistance. To qualify for reimbursement, the employee must earn a minimum grade of at least a "C" or better. In order to be processed, the request must be signed by the employee, the immediate supervisor, and the department/division personnel

⁴ We could locate documentation outlining the Tuition Reimbursement Program dating back to October 1988. However, according to the Human Resources Director, a Tuition Reimbursement Program was in effect at least as far back as 1974.

⁵ Administrative Guidelines (AG) are now known as Administrative Regulations (AR).

representative (the SP3⁶). The SP3 is responsible for verifying the cost, eligibility, and ensuring that the employee has not reached the annual limit. One copy of the form is submitted to Payroll to initiate payment and one copy, along with the grade slip, is maintained in the department/division. The form used to request the reimbursement is shown on the following page.

⁶ Scottsdale Personnel Partnership Program (SP3) is a program in which staff within the Department or Division serve as a liaison with Human Resources and Payroll. The SP3 processes paperwork related to personnel issues and coordinates with Payroll to answer employee questions.



Application for Tuition Assistance

City of Scottsdale

Policies:

The maximum reimbursement amount is set annually by Human Resource Systems and is limited to an amount equivalent to the cost of 18 credit hours per year at Arizona State University.

Full time, job share, and part time employees are eligible (ref. HR Brief #63 for details); temporaries and contractual employees will not be reimbursed.

Tuition will be reimbursed for job-related courses taken for academic credit only; fees and books will not be reimbursed. A cost per credit schedule can be obtained from your departmental SP3.

Tuition will be reimbursed provided employee receives a "C" grad or better.

In accordance with federal and state regulations, reimbursements will be taxed, where applicable.

Procedures:

Upon completion of class, if the employee is eligible for reimbursement, the employee acquires an Application for Tuition Assistance from their departmental SP3. Part time employees will sign a "Statement of Understanding" prior to seeking reimbursement.

The employee fills out the form, attaches grade slip, obtains supervisor's signature, then submits the form and grade slip to their departmental SP3.

SP3 verifies cost, grade eligibility, signature authorization, and then signs the bottom of the form.

SP3 partner sends white copy of form to Payroll. SP3 retains yellow copy with grade slip for departmental files.

Employee will receive reimbursement with paycheck.

This portion to be completed by employee and supervisor:

Name: _____ Social Security Number: _____

Job Title: _____

Department/Division: _____ College Institution: _____

Explain how the following course(s) are job-related (please be specific):

Course Name	Graduate Course?			Course #	Credits	Semester/Year	Final Grade	Tuition
	Yes		No					
	Yes		No					
	Yes		No					

Total Refund Requested*:

*Part time employees may request no more than 50% of tuition cost. Do not exceed annual maximum allowed.

SP3 Signature	Date	Work Phone #
Signature of Applicant	Date	Work Phone #
Immediate Supervisor Authorization	Date	Work Phone #

Payroll – White Copy

Department – Yellow Copy

Federal Requirements for Educational Assistance Programs

Under the Internal Revenue Code (IRC), educational assistance programs such as the City's Tuition Assistance Program are considered to be a taxable fringe benefit provided to employees.

Fringe Benefit – a form of pay for the performance of services considered to be taxable income that must be included in the recipient's pay unless specifically excluded by law.

SOURCE: U.S. Internal Revenue Code.

However, provisions within the IRC (Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Section 127⁷) allow up to \$5,250⁸ per calendar year, paid under a qualified educational assistance program for an eligible course, to be considered "non-taxable." In order for the assistance to be considered "non-taxable," the program must be documented in a separate, written plan designed for the exclusive benefit of the employees. As well, the program cannot discriminate in favor of highly compensated individuals and reasonable efforts must be undertaken to notify employees of the availability of the program.

In addition to the cost of tuition, under IRC provisions, the program can be structured to cover the cost of books, supplies, and equipment necessary to complete the course but cannot cover the cost of tools and supplies that might be retained by the employee at the conclusion of the instruction. As well, the program cannot cover the cost of meals, lodging, or transportation nor can courses or education related to sports, games, or hobbies be covered unless the course is required as part of a degree program. Additionally, from 1996 through December 2001,⁹ graduate level courses were excluded from the definition of coverage. However, changes implemented in 2001 extended non-taxable status to these advanced level academic courses beginning after January 2002.

Historical Information

When comparing the AG in place in 1991 to the current Program, it is apparent that there was a significant change in Program direction in 1994. According to the Human Resources General Manager, this change was part of the shift in organizational culture.

⁷ Pub. L. 95-600, November 6, 1978.

⁸ An amendment in 1986 increased the amount from \$5,000 to \$5,250.

⁹ During various periods of time, graduate level courses were eligible for exclusion. A 2001 amendment most recently re-instated coverage for courses beginning after January 1, 2002.

Program in effect prior to 1994:

- Only full-time and job-share employees who successfully completed their probationary period were eligible.
- Actual cost of tuition up to the equivalent of 6 credit hours per semester at ASU.
- No reimbursement if employee receives educational assistance from other sources such as grants or scholarships.
- Management approval required (both department and HR) prior to start of class to qualify for reimbursement.
- Job-related degree program:
 - Electives must be job related.
 - If not enrolled in a degree program, then only job-related coursework would be reimbursed.

Current Program:

- Full-time and job-share employees with no minimum employment requirement are eligible.
- Part-time regular employees, after completing one year of employment, are eligible.
- Actual cost up to 18 credit hours at ASU.
- No requirement to provide proof of payment or report other educational assistance.
- No approval process prior to completion of course and no review by HR prior to or after approval of the reimbursement.
- Job-related or any degree program.

Cost to the City

While the average reimbursement per participant has stayed relatively constant during the last three years, the number of participants increased slightly between 1999 and 2000. The growth in participation combined with the adjustments in the amount eligible for reimbursement has resulted in an increased cost to the City. The insert below shows the amount budgeted and the actual expenditures per fiscal year.

	98/99	99/00	00/01	01/02
Budgeted	\$ 90,000	\$147,000	\$152,000	\$252,000
Actual	\$161,536	\$174,746	\$203,127	\$ 209,289

SOURCE: Human Resources.

The insert below shows the number of employees participating, the Department to which the employee was assigned, and the ratio of full-time to part-time employees per calendar year.

	1999	2000	2001
Total	190	226	226
Full-Time/Job-Share	160	197	190
Part-Time	30	29	36
Average Reimbursement	\$885	\$893	\$878
# of employees receiving \$500 or less	83	105	102
# of employees receiving \$501-\$1,000	38	33	40
# of employees receiving \$1,001 or more but less than limit	31	47	48
# of employees receiving maximum available	38	41	36
Department			
General Government	16	19	30
Police	75	79	69
Financial Services	13	16	13
Transportation	1	4	3
Community Services	48	62	64
Information Systems	4	1	4
Planning	20	25	15
Water Resources	8	10	17
Municipal Services	5	10	7
Comm. Neigh. Res.	N/A	N/A	4

SOURCE: Human Resources and Audit Analysis.

During the three-year period ending December 2001, slightly more than 400 different employees took advantage of the Tuition Assistance Program. Of these, 57.7 percent participated only one year, 31 percent participated two out of the three years, and 11.3 percent received assistance each of the three years.

Comparison to Other Municipalities and the County

While each of the programs varies either in amount offered, terms of participation, or program covered, other surrounding communities and Maricopa County also provide educational assistance to employees. The following is a brief summary of the programs offered.

City of Phoenix

The City of Phoenix has two employee development programs; one known as the Management Development Fund for middle managers and executives and

the other known as the Employee Development Reimbursement Program for all other employees. Only the Employee Development Reimbursement Program will be discussed in this report.

This program provides funding, on a fiscal year basis, up to the cost of two semesters at ASU. The funds can be used to reimburse the cost of tuition for courses taken from institutions accredited by the Association of Schools and Colleges and related to employment with the city.

All requests for reimbursement must be submitted to the Employee Development Division within the Personnel Department along with proof of payment and the grade report or transcript. For undergraduate courses, the employee must receive at least a "C" to be reimbursed. For graduate courses, the employee must receive at least a "B."

Participation in the program is limited to regular, active full-time employees who have completed one year of full-time employment. For job-share employees, who meet the same requirements, the employee may use a percentage of the allowance up to the percent of the job share.

In addition to reimbursing tuition for work-related courses, the program will also cover the cost of maintaining any required certification (after receiving certification) for certain job classifications. As well, employees in eligible job classifications can use a portion of the available funds to pay for seminars, workshops, and/or professional memberships.

The Employee Development Division is responsible for controlling the cost associated with the reimbursement of seminars, workshops, and/or professional memberships. Prior approval by the department head or delegated authority is required and the Employee Development Division has the authority to reject any request if similar course content is available at a lower cost.

City of Tempe

City of Tempe has a tuition and book reimbursement policy that covers courses and degrees related to a specific city job or function. All regular, full-time employees who have fulfilled the original probationary requirements for their jobs are eligible. Regular, part-time employees are eligible at a prorated amount.

The maximum reimbursable amount, per calendar year, is \$5,000. Courses must be taken at an accredited college or university and the employee must receive prior approval of the department manager/director, Assistant City Manager or City Manager, and the Tempe Learning Center Director. In

addition to courses taken at a college or university, the program will also reimburse the cost of job-related vocational or professional training courses or programs. These courses must also receive prior approval.

To be considered eligible for reimbursement, the course must:

- Be directly related to the employee's current job.
- Make the employee more promotable within the city and be related to a current city position, which is within the employee's realistic promotional line.
- Be required in a curriculum program leading to a degree that is applicable (required or preferred) to a current city job classification.

Similar to the City of Phoenix, the City of Tempe will reimburse undergraduate courses if an employee receives a "C" or better and will reimburse graduate level courses only if the employee receives a "B" or better.

City of Glendale

The City of Glendale also has a tuition reimbursement program that provides, on a fiscal year basis, up to \$2,000 for full-time and part-time regular status employees. The amount available is tied to the number of hours in a workweek and ranges from \$500 for an employee who works 10 hours or less a week up to \$2,000 for an employee who works 31 hours or more a week.

Similar to other municipalities, City of Glendale also requires a "C" or better for reimbursement of undergraduate courses and a "B" or better for graduate level courses. To be eligible for reimbursement, the course must be taken for academic credit and must be:

- Job related.
- Make the employee more promotable.
- Be required as part of a curriculum for a degree that is job-related or in a career field related to the employee's current professional field.

City of Glendale also covers the cost of student fees, laboratory fees, and textbooks. Prior to the start of the class, the employee must submit an application for education assistance to the Human Resources Department for review and approval. After completion, the employee must submit a request for reimbursement along with the official grade report or transcript and proof of payment.

City of Chandler

The City of Chandler offers a tuition reimbursement program that provides an amount up to the cost of 24 semester hours at ASU.¹⁰ Regular, full-time employees who have completed the probationary period and are eligible for vacation benefits, are eligible for consideration of tuition reimbursement. If the regular, full-time employee has not completed the initial probation period, they may still submit requests for tuition reimbursement but will not be reimbursed until the conclusion of the probationary period.

Employees must submit an application form for approval to their immediate supervisor prior to starting a class. The supervisor forwards the application to the Personnel Director who verifies the amount and school and notifies the employee, in writing, of the approval and the maximum to be reimbursed. Courses must be taken at a fully accredited school, college, or authorized technical trade school. As well, courses must:

- Be career-related and provide professional enhancement.
- Be listed on an approved degree plan.
- Be taken on off-duty time.

To be eligible for reimbursement, the employee must receive a grade of "C" or higher or its equivalent where letter grades are not used. The program does not cover special fees, laboratory fees, registration fees, books, supplies, or other materials or services. The reimbursement amount will be reduced by any financial assistance the employee receives.

If an employee terminates from the city within twelve months of completion of a course, the employee must return 100 percent of the tuition reimbursement.

Town of Gilbert

The Town of Gilbert provides a tuition reimbursement program that provides an amount up to \$5,000 per calendar year (subject to budget constraints). To be eligible, employees must complete six months of full-time employment. Courses must be taken for college or vocational school credit and must be related to the employee's general wellness and/or fitness, to the employee's current position, or to another position within the organization (current or future).

Employees must notify their supervisor prior to the beginning of each fiscal year of their intention to apply for tuition reimbursement so the department can budget for the expense. To be reimbursed, an employee must complete a Tuition Reimbursement Authorization Form prior to beginning a class and

¹⁰ At the rate charged to a resident who is taking undergraduate courses.

forward it to Personnel for eligibility verification. Once the class is completed, the employee must submit receipts and grade documentation.

To receive full reimbursement, the employee must receive a grade of "B" or better. A grade of "C" equates to a 90 percent reimbursement while a "Pass" or academic credit by assessment equates to an 80 percent reimbursement. Non-degree course work taken for credit is reimbursed at the same percentage but paid at the community college rate. Non-academic training programs are budgeted as needed by each department. Registration fees, activity fees, books, financial aid fees, and supplies are not reimbursable.

Similar to the City of Chandler, if an employee resigns within one year of course completion, the employee is subject to repayment of the tuition reimbursement. The employee's repayment obligation will be calculated on a monthly-prorated basis. Repayment will be deducted from the employee's final paycheck.

City of Mesa

The City of Mesa's tuition reimbursement program covers coursework that is directly job-related, will make the employee more promotable with any city department, or that is required for a degree program that is job-related or in a related career field. The amount that will be provided is established annually by the City Manager. Eligible employees must have full-time or regular, part-time status prior to the beginning of a course and continue to be employed at the time of reimbursement. For part-time employees, the reimbursement is limited to half the annual rate provided to full-time employees.

To be eligible, the school must be accredited by one of six regional accrediting associations and the employee must receive a grade of "C" or higher. The program will not cover administration fees, lab fees, books, or recreation fees and reimbursement will be adjusted for any amount an employee receives for financial assistance.

Mesa requires that the Personnel Division approve a course or degree program as a condition of participation. If an employee is participating in a degree program, he or she must complete a *Tuition Reimbursement Agreement* and attach a degree completion schedule to list all core and elective courses that will be taken. The schedule must be signed by an academic advisor and, after approval, will serve as the documentation of approved courses. This process eliminates the requirement to submit a request for each semester. An employee can change a program but must submit the change to Personnel within thirty days.

After a course is completed, an employee has six months in which to submit the final paperwork. Reimbursement will be made upon submittal of an official

grade report and payment receipt. Employees participating in a degree program are also required to submit a copy of the approved Tuition Reimbursement Agreement.

Maricopa County

Maricopa County provides a maximum of \$5,000 per employee per fiscal year. Funds are distributed on a "first come, first served" basis determined according to the date a request is submitted for approval. To ensure that funding is equally distributed, half of the tuition funds are reserved and distributed in the first six months of the fiscal year and half are reserved and distributed the second part of the fiscal year. Full-time employees who have completed initial probation and have received a full performance evaluation on their most recent performance evaluation are eligible for tuition reimbursement.

To participate in the program, an employee completes an application three months prior to the start of each class. Both the employee's supervisor and Organizational Planning and Training must approve the request. If approved, the employee completes the course and then submits the approved application along with the original, final grade slip and itemized statement of payment to receive reimbursement.

For a course to be considered, it must maintain or improve skills related to the employee's current work or profession. As well, it must be accredited by the North Central Association of Colleges and Schools or a similar accrediting body. If an employee receives tuition reimbursement from another tax-funded source (i.e., Pell Grant) they are not eligible for tuition reimbursement.

Maricopa County also calculates reimbursements on a sliding scale according to grade received. The calculation ranges from 100 percent for an "A" to 60 percent for a "C" or "Pass."

INTRODUCTION

The IRC provides a great deal of flexibility when offering an educational assistance program. The employer has the discretion to determine the amount to be provided and there is no requirement to fund the program once it has been developed (i.e., an employer can adopt the program and then decide not to fund it one or more years). An employer can also define "educational assistance." There is no requirement for the coursework to be completed at a college or university; technical schools, classes offered by professional organizations, or other educational opportunities could be covered.

As well, an employer can implement a program that provides different rates of assistance based on the type of educational opportunity. For example, a greater amount of assistance to employees who pursue an undergraduate degree and a lower amount of assistance could be set for graduate work. Or, a decision could be made to simply not fund coursework beyond the undergraduate level. Assistance can also be structured so that a certain grade is required. For example, requiring a "B" grade for any graduate level course. With the ability to implement different rate structures and set minimum grade requirements, any combination is achievable. For example, the structure could be graduated to offer 100 percent if an "A" is received, provide 90 percent if a "B" is obtained, and 80 percent for a "C."

This report will discuss several options that the City could consider when evaluating the benefit of continuing to offer a Tuition Assistance Program. By modifying the amount of assistance provided, the type of coursework covered, or the rate structure, the City could continue to offer assistance but reduce the cost of the Program. For example, eliminating the eligibility of graduate level coursework would potentially save the City \$81,000 a year (based on the average paid out over the last three calendar years). Or, by capping the amount of assistance to \$1,500, the City could save approximately \$30,000 (based on the requests submitted in calendar year 2001).

As well, there are several changes that can be implemented to improve the efficiency in which the Program is managed. Centralizing the responsibility for processing requests will eliminate unnecessary efforts to train employees who may never be put in a position of needing to process a request, as well as eliminating the need to distribute data each time the cost schedule changes. Moreover, it will streamline the record keeping and facilitate management reporting.

In addition, the report addresses needed changes in the internal control environment to ensure that the City pays out amounts that are appropriate given the structure of the Program. In total, we estimate that over the past

three years, the City paid out approximately \$27,697 in overpayments or assistance that should not have been eligible.

Finally, the last section deals with compliance with the City Charter and IRC. If the City chooses not to continue the Program, recommendations in this section will no longer be relevant.

Align Funding With the Needs of the City

- Require Human Resources management to develop performance measures that can be used to evaluate the benefit of the Program.
- Require coursework or degree programs to be relevant to current or future employment with the City.
- Tie assistance to the employee's Professional Development Plan.
- Require submittal of a Program of Study, approved by an academic advisor or other authorized school representative, to document required coursework.
- Require the Learning and Organizational Director to review and approve the proposed coursework or the Program of Study prior to registration as a condition of participation.
- Establish a minimum length of employment and an acceptable performance rating as a condition of eligibility.
- Incorporate different rates for tuition assistance as a means of rewarding employees who demonstrate a willingness to put forth the effort necessary to achieve a grade higher than the standard "C."

According to written guidance, the goal of the Tuition Assistance Program is to provide financial assistance for courses that mutually benefit the City of Scottsdale and the employees. As such, we would have expected to be able to determine that the coursework submitted for assistance had some relationship to the employee's current job or would serve to position the employee for another job at the City.

We found that:

- Financial assistance for degree programs is not limited. According to the AG, the City will provide assistance for "work related courses and any degree program." There is no supplemental language that would limit assistance to situations in which the degree program will help make the employee more qualified for another job at the City or is part of a career plan.

- Human Resources management does not monitor the coursework taken or the degree programs pursued to provide assurance that the City will benefit, in some manner, from the financial assistance.
- There is no requirement for the employee and supervisor to discuss and document, during performance reviews, coursework that would be beneficial to the City and the employee. Because this information is not captured, there is no way to determine, after the fact, that the proposed coursework was part of a thoroughly thought out professional development plan.
- There is no requirement for an employee to submit a "Program of Study" to document the core course requirements and electives as a means of ensuring that assistance is limited to coursework required for a degree. Without this requirement, no effective review can be undertaken. Moreover, if the City implemented a requirement for prior approval of coursework, the employee would be placed in the position of having to submit a request for approval for each semester of coursework.
- Human Resources management does not review the request for assistance prior to registration to provide assurance that coursework meets established criteria and educational institutions meet standards. The practice in prior years has not been effective. Out of the 1,182 applications processed in the last three calendar years (1999, 2000, and 2001) more than 69 percent contained either no justification or a justification that did not relate to the employee's job.
- Program eligibility is too broad to provide assurance that funds will only be expended in situations in which the City has a reasonable expectation that the employment arrangement will continue. There is no requirement for full-time or job-share employees to complete a minimum length of employment prior to participating. Moreover, there is no requirement for an employee to maintain a minimum acceptable level of job performance while participating. Finally, the definition does not exclude temporary workers from coverage. In 2001, three employees classified as "temporary" participated in the Program at a cost of \$5,844.
- Employees who decide to pursue graduate level courses are not encouraged to participate at a level necessary to earn a grade better than "average." Instead, the same grade criteria used for undergraduate work is carried over to graduate work. By providing the same level of assistance, there is no financial incentive for an employee to demonstrate a higher level of comprehension.

We believe the structure of the current Program is reflective of past management philosophy. Prior to 1994, there was a requirement for a minimum length of employment and degree programs had to be job-related. Moreover, there was a requirement for pre-authorization as a condition of participation. This process provided at least a minimum level of assurance that the employee was able to carry out required job duties. It also allowed the City an opportunity to review the class and the proposed educational institution prior to the employee registering for the class. As such, if the City chose not to approve the request, it was then the employee's choice to take the class anyway, knowing that assistance would not be provided.

However, under the existing philosophy, the City annually funds a Program without considering the value and the associated cost. It also continues to fund a Program that operates with little assurance that the desired outcome will be achieved. The recommendations we have laid out will provide greater assurance that financial assistance is limited to coursework that benefits the City.

Modify the Structure of Assistance to Reduce the Cost of the Program

- Cap the amount of assistance.
- Document the City's right to cease financial assistance if budget is spent.
- Limit the amount of assistance provided for graduate degrees or doctorate studies.
- Create parity in the Program by pro-rating assistance provided to job-share employees and part-time employees.
- Prohibit payment of assistance when employees receive other financial assistance such as reduced tuition rates, grants, or scholarships.

The City has been proactive in identifying situations in which programs could be structured to continue to meet service needs but with less financial outlay. The Tuition Assistance Program, though, has not been reviewed in this context.

We believe there are several modifications that can be considered to reduce the cost of the Program without completely eliminating it. Moreover, the suggested changes would improve the parity of Program delivery and preclude the potential for the City to provide assistance in situations where the employee does not actually pay for the coursework.

The current AG does not establish a cap on the amount of assistance the City is willing to provide. Instead, the amount is indexed to the cost of 18 credit

hours at ASU. We found no relationship between this index and the goal of the Program. First, in the three years ending 2001, employees sought assistance for coursework taken at 31 different institutions. Of these, the majority of employees chose coursework offered at community colleges. Moreover, there are few employees taking advantage of the full amount of assistance. Of the 226 employees participating during 2001, only 36 (16 percent) requested the entire amount of assistance. Of these 36 employees, 16 elected to pursue education at the University of Phoenix.

Without a cap on the amount of financial assistance, the cost of the Program continues to creep up. This is the result of the fact that the increases, while immaterial each year, have a compounding effect over the years. For example, in 2001, the net out-of-pocket cost of the increase in assistance was slightly over \$2,600. However, if the requests for assistance remains constant, the increases implemented in 2001 and 2002 will require the City to commit \$10,000 more in funding.

The amount of potential savings can be significant if the City is willing to consider a cap below \$2,000. For example, implementing a cap of \$1,500 would have reduced the 2001 Program cost by approximately \$28,500. This lower cap also reduces the potential risk to the City that accompanies a fringe benefit program in which there is no control over who elects to participate. For example, if the 36 employees participating fully in 2001 elect to pursue continuing education and request the full amount of assistance provided for 2002 (\$2,268), the cost to the City would be \$82,000. If, in addition, 36 new employees also decide to participate fully and request the maximum available, the cost doubles to \$164,000. A cap of \$1,500 would have limited the exposure to \$108,000.

To guard against situations in which external factors or other circumstances creates more interest in the Program than available funding, the City should have a clear position on requests that exceed budget. In previous years, the practice was to simply exceed the budget and hope that other programs experienced cost savings. To avoid this situation, the City could establish a policy to the effect that funding will be provided on a first come, first served basis. This suggested policy is similar to the procedures adopted by Maricopa County. At the County, financial assistance is divided into two periods and requests are honored on a first come, first served basis until funding is exhausted. Employees then have the option of continuing coursework or postponing the educational opportunity until the next period and making a request.

Regardless of whether or not the City decides to limit the amount of assistance to funds available or seek other budget authority when requests exceed the

projected budget, the City's Tuition Assistance Program should include a statement that provides the City with the ability to discontinue the financial assistance if funds are not available. This statement would allow the City sufficient flexibility to avoid budget overruns, if other funds are not available.

Because the IRC provides flexibility in the definition of educational assistance, the City has the option of re-visiting the types of educational opportunities that will be considered appropriate for financial assistance. We found no defined Program objective or desired outcome that would cease to be served if the City decided to not provide financial assistance for graduate degrees or doctorate studies. Over the past three years, the inclusion of graduate level coursework cost the City a total of \$242,583. In 2000 alone, the amount paid out for these courses was over \$100,000. There is no data to confirm that graduate or doctorate programs of study improve job skills or result in improved service delivery.

The financial commitment necessary to continue to offer the Tuition Assistance Program can also be impacted by the eligibility criteria and the parity within the Program. The City's Program has historically provided assistance to part-time employees equal to the amount provided to full-time employees. The caveat to this policy though is that the assistance was provided at one-half the amount of tuition. Basically, a part-time employee could receive the full amount of assistance but would need to incur twice the out-of-pocket cost. We could find no other policy as lenient as what the City currently has. Moreover, assistance has not been limited to situations in which the part-time employee is classified as an employee that qualifies for benefits. As a result, a part-time employee, hired for a temporary assignment, could meet the parameters for participating in the Program because the "temporary" assignment exceeds one year. Of the thirty-five part-time employees requesting assistance in 2001, four fell into a classification in which the job was classified as not qualifying for leave and two were classified as temporary workers. Providing assistance to these employees cost the City approximately \$7,000 in 2001. Of these six, four received assistance that exceeded \$1,070 (50 percent of the assistance provided to full-time employees). The issue of part-time employees has been approached differently at surrounding municipalities. Phoenix, Chandler, and Gilbert do not extend coverage to part-time employees. Tempe and Glendale extend coverage but the amount available is pro-rated based on hours worked.

There is also an issue with parity in the treatment of job-share employees. Currently, the City practice is to allow job-share employees to participate at the same rate provided to full-time employees. No other surrounding municipality provides 100 percent of allotted financial assistance to job-share employees;

assistance is pro-rated. This practice also conflicts with the City's practice of allocating other benefits, such as leave, which is based on hours worked.

Finally, financial assistance should not be provided for coursework in which the employee receives other financial aid such as grants, scholarships, or discounted tuition. However, the City's current guideline does not prohibit an employee from requesting assistance under these circumstances. We found nothing in either the guideline or the application for assistance that would preclude an employee from submitting a request for assistance to the City while receiving other financial assistance or receiving a benefit of reduced tuition.

Clarify the Purpose of Tuition Assistance Funds and Preclude Use of the Fund as a Substitute for Department Approved Training Funds

Historically, the Tuition Assistance Program has been considered a fringe benefit. Funding for the Program has been allocated in the Human Resources Department budget and training provided has not been charged back to the department or division. To ensure that the cost of the Program is not inflated with the inclusion of department-required training, guidelines should prohibit the use of the fund for this type of coursework.

However, the Tuition Assistance Program guidelines are not specific enough to preclude a general manager or supervisor from requiring an employee to use these funds as a means of obtaining continuing education or training specifically required as a condition of employment. Allowing this to happen artificially inflates the cost of providing the financial assistance and could potentially skew analytical data at the department or division level. Moreover, it creates a situation in which a department can outline specific training needs as part of the budget process, but then require the employee to pay for the course and submit a request for reimbursement. This practice would free up department training funds for other uses while pushing up the cost of tuition assistance, potentially creating budget overruns.

Moreover, because there is no process that tracks coursework taken through the Tuition Assistance Program, the City would not have historical information that could be used to determine the training needs of a department or division as a means of identifying alternative opportunities.

The practice can also place an employee at a disadvantage because the funds are capped at the individual level. If a manager can require that an employee use these funds for training identified at the department level, the amount of assistance available to that employee for other desired training would be impacted.

Centralize the Management and Oversight of the Program

There are acceptable conditions in which management of a program should be decentralized. Two generally accepted situations are:

- Locations are so remote that central control is difficult.
- The nature of work is distinct enough that a division could be spun off or sold.

In absence of conditions such as these, decisions to decentralize management and oversight are usually not beneficial. Creating a situation in which multiple employees must be considered "experts" requires additional resources to ensure that training is kept current. It also requires an additional commitment in resources to disseminate information to the multiple locations. Moreover, it creates challenges in the oversight of work conducted at the various locations.

In 1994, this is exactly what happened to the Tuition Assistance Program. Human Resources delegated the responsibility for the paperwork to departmental representatives. There were, though, no compensating controls implemented to provide sufficient oversight of the transactions processed on behalf of Human Resources.

Decentralizing the management of the Program created an inefficient environment. Instead of having one person who was well trained in the parameters of the Program, multiple employees were placed in the situation of having to process paperwork for a program in which they had limited knowledge or training. Moreover, Payroll was placed in the situation of having to deal with staff at the department level if there was a concern regarding the application instead of having a single point of contact that was responsible for ensuring that requests were prepared accurately and included all required information.

As well, any change in procedures had to be communicated to each SP3; thereby creating a situation that required more resources than if Human Resources had remained responsible for reviewing and approving requests for assistance. Finally, retaining records of tuition assistance requests at the department level creates a situation that requires:

- Multiple site visits should the Program need to be audited again.
- Compiling data from multiple sites should management desire reports regarding type of courses or educational institutions.
- Identifying tuition assistance records as a departmental record, thereby creating a situation in which each department should establish record

retention schedules. As such, when records are required to be destroyed, separate destruction schedules would need to be prepared.

Moreover, the decentralized approach creates issues when employees transfer to other departments. Currently, there is no process that allows the paperwork to move with the employee. As such, the departmental SP3 in the employee's new work area will not be aware of prior decisions. This could result in approval of a request for reimbursement when, in fact, a request for the same coursework had already been processed by another departmental SP3.

This situation exists because management wanted to streamline the process as a means of improving the turnaround of payments. However, management did not consider the duplication of effort that would result from establishing multiple points in which requests could be generated and approved. As a result, the City is committing more resources to the management of the Program than necessary. Moreover, because there is no means of identifying the volume of resources consumed at the department level to process these requests, city management has no data regarding the true cost of the Program.

Modify the Program to Reduce the Effort Necessary to Manage It

The structure of service delivery can impact the soft-dollar cost of providing a particular program. While a reduction in soft-dollar costs will not generally result in actual cost savings, the efficiencies that can be gained will free up staff time for other needs. To reduce the potential for wasteful spending, program delivery should be efficient and structured to avoid duplication of effort or unneeded work.

We found that:

- Modifying the amount of assistance provided each year is inefficient. This practice requires that Human Resources establish a new schedule of assistance and communicate the amount throughout the organization. Moreover, Financial Services (i.e., the Payroll Division) must incorporate the new amount into the Payroll system as a means of tracking the amount provided per employee to identify situations in which a request for assistance exceeds the amount. As such, there is no extended period of normalcy.
- Establishing a period of coverage different from the City's fiscal year creates a situation in which additional unneeded work must be performed. The City adopts an annual budget that is in effect July 1 through June 30. For the Tuition Assistance Program, though, the

annual amount of assistance is set by calendar year. Through this practice, city management must develop a proposed budget without knowing the amount of assistance that will be provided the last six months of the fiscal year.

- There is no requirement for the City to set the amount of assistance to a calendar year time period and changing the period of coverage would not jeopardize the tax status of the Program. There are, however, several advantages associated with a change to a fiscal year funding strategy. First, by setting the amount prior to budget preparation, budget liaisons can communicate any changes as part of the development of the department budget. Second, the budgeting becomes easier, requiring only a projection of future participation. Third, management reports can be prepared and submitted at close of fiscal year.
- Because assistance is based on calendar year, staff must track these payments separate from other expenditures paid during the fiscal year. This requires a reconciliation of fiscal year to calendar year records as a means of ensuring correct posting of expenditures. It also creates difficulties in preparing future budgets, as there is no tie between the budget year and the year that the assistance could be paid out.
- Cut-off periods need to be established to identify the period in which the tuition assistance will be charged. Currently, there is no time limit in which an employee can submit a request and no guidance that establishes the period in which tuition assistance will be charged. As a result, employees can structure the timing of requests to receive assistance in a new calendar year for a class that was taken the prior year. Because there is no time limit, departmental representatives are placed in a position of needing to remain familiar with prior limits and cost schedules. Without an established period in which requests can be submitted, the City is held hostage to outside influences and cannot proactively ensure that expenditures are reflected in the period in which the employee actually participates in the continuing education opportunity. The practice also creates the potential for discrepancies in budgeted expenditures to actual, simply because employees did not submit requests in time to be charged against the correct fiscal year.

Clarify the Type of Expenses Covered Under the Program

The IRC allows flexibility in determining the types of expenses that will be covered under an educational assistance program. Tuition, fees, books, and supplies are all eligible but tools, food, and lodging cannot be covered. Education involving sports, games, and hobbies can only be covered if it either has a reasonable relationship to the job or is required as part of a degree

program. As such, the City should clearly identify the types of expenses allowed and those disallowed.

The current guidance on what is eligible for coverage is not sufficient to establish a firm guideline. According to the AG, "assistance is made for the actual cost of tuition" but there is nothing that prohibits the inclusion of courses related to sports, games, or hobbies unless the course is reasonably related to the employee's current job or is required as part of a degree program.

Without this clear guidance, there is a potential that reimbursement will be made for expenses that were not intended to be covered or are not allowed under federal regulations. For example, we found situations in which assistance was provided for language immersion courses. The tuition related to these classes covered food and lodging costs, an expenditure that is specifically disallowed under the IRC.

Moreover, it is difficult to determine "the actual cost of tuition." The application for assistance states that fees will not be reimbursed but this statement is not included in the AG. As such, the City's policy on what is considered the "cost of tuition" is not clear. For example, the state universities require mandatory fees that must be paid as a condition of registering. For example, all students are charged an annual fee that is credited to the Financial Aid Trust Fund. There is no way for a student to register for a class without paying this fee. As such, it becomes part of the cost of tuition. But, under the current guideline, the direction as to whether or not this mandatory fee should be excluded is not clear.

We believe this situation exists because management has not committed the resources necessary to adequately document what expenses will be considered when an employee makes a request for assistance. Moreover, because there is no review of requests, issues related to covered costs have not been timely identified.

As a result, there is inconsistent treatment of requests for assistance. We noted numerous instances in which requests for assistance were processed for different amounts than the cost per credit hour listed on the cost schedule. We believe this is directly attributable to employees listing what was paid without backing out extra fees.

When fees become mandatory, a blanket statement that excludes all fees creates a situation in which an employee will be required to pay part of the cost of tuition out of pocket even though the amount of assistance requested falls below the maximum amount. Because fees are considered an eligible cost under the IRC, the City could avoid the need to itemize registration costs

by simply incorporating mandatory fees as an eligible expense. If the desire is to still exclude fees such as application fees, examination fees (for those employees seeking to test out of a course requirement), or late fees, these could be listed as specific expenses that would not be covered.

Improvements in the Internal Control Environment Would Provide Assurance that Assistance is Provided According to Set Policy

- Require requests for assistance to be reviewed and approved by an appropriate level of management in Human Resources prior to submittal for payment.
- Require submittal of itemized invoices as a means of documenting what the employee paid.
- Insert a statement on the request form placing the employee and supervisor on notice that their signature represents that the information on the request is factual and correct.
- Require employees to print their name, in addition to the signature, as a means of establishing the name associated with the signature.
- Establish a policy and procedure for appropriate record keeping and take appropriate steps to obtain an approved records retention schedule.

Processing a tuition assistance request is similar to the processing of a check requisition or use of a city purchasing card. In each of these cases, the final outcome is the expenditure of city funds. As such, there should be an expectation that the Program would be adequately managed with a system of controls in place sufficient to ensure that reimbursements are processed appropriately, consistently, and according to established policy.

We found that this is not the case. Duties that should appropriately rest with Human Resources have been delegated to SP3s. After delegation, Human Resources has played no role in ensuring that requests were processed appropriately, consistently, or according to policy. This decision created an environment in which there was a greater likelihood for inconsistent treatment simply due to a difference in understanding among the various individuals assigned to process the paperwork. According to the SP3s interviewed during the audit, little training is provided and there are no written policies and procedures outlining how to process the paperwork. Instead, staff must rely on information presented on the application if there is a question regarding a particular request.

Requests for assistance are processed without any proof of payment such as a receipt from the educational institution. Moreover, there is no statement to

the effect that the City will not provide assistance for coursework when the employee is receiving financial assistance from other sources such as grants, scholarships, or discounted tuition rates. As such, there is no assurance that the amount listed was actually paid.

As part of our work, we looked at all applications submitted over the past three calendar years. Instead of finding limited exceptions in which applications were filled out completely, processed appropriately, consistently, and according to policy, the reverse was true. It became an exception to find an application that was filled out completely, signed appropriately, and agreed with the cost schedule. We found multiple instances in which applications were approved even though the educational institution was not listed on the cost schedule. When a course was taken at an educational institution that was listed, there was little assurance that the amount paid would agree with what was listed. In most situations, the difference was minimal but the volume of errors was significant. Finally, we found ten applications processed without a grade listed, and fifty-three were submitted and paid for courses that were taken as "pass/fail." Both the application and the AG state clearly that reimbursement will only be made for classes in which an employee receives a "C" or better. We estimate that, of the \$569,000 paid out in the last three years, approximately \$27,697 was erroneous.

One of the first elements of a good internal control environment is setting the authorization to expend funds with the department or division that is responsible for managing the use of the funds. If appropriate, delegation should be documented and consistent with city policy. However, under the current structure, authorization to approve requests for assistance has been delegated to the supervisor level without any assurance that the supervisor has received sufficient training. Moreover, there is no control over the number of individuals delegated to approve the request. Basically, all control rests at the department level without any assurance that the form will actually be reviewed and approved by someone who is authorized to initiate payroll actions or approve the expenditure of funds. The form only requires the signature of the immediate supervisor and the department SP3. This process inefficiently delegates the authorization to spend funds to individuals who have no true signature authority.

Another important component of an internal control environment is sufficient documentation. Basically, the City should have assurance that the amount requested agrees with the amount actually paid to the institution. However, employees are not required to submit an itemized invoice as proof of payment and cost incurred. This means that the City has no assurance that the amount of assistance requested agrees with the cost of tuition charged to an employee.

As well, submittal of a request for tuition assistance should be treated no different than other financially related transactions. Employees need to be placed on notice that it is their responsibility to ensure that the information submitted on the request is accurate and complies with city policy. For travel reconciliations and check requisitions a statement to this effect has been included.

However, there is no similar language on the tuition application to place an employee, supervisor, or departmental SP3 on notice that they are responsible for ensuring that the form contains correct information. As such, the City would be placed in a difficult position if it became necessary to discipline an employee who submitted an incorrect request.

Moreover, information on a request for payment should be sufficient to allow an independent person to determine who authorized the expenditure. However, there is no requirement for an employee, supervisor, or SP3 to print their name under their signature. As a result, it can be impossible to determine what name the signature is meant to reflect. As such, the person processing the paperwork is often placed in a position of having to believe that the signature reflected on the document is the correct person. If a signature is not legible, there is no way to determine who actually approved the paperwork.

Finally, records should be maintained to evidence the proper expenditure of funds. The application states that the departmental SP3 is to retain a copy of the application and the grade slip, but there is limited assurance that adequate records will be retained in a readily accessible manner. Because there is no central oversight, record retention varies from department to department, but there is no written guidance on appropriate record keeping. For example, SP3s are not instructed to keep the records in a secure fashion (even though the application includes the employee's social security number) nor how long the information should be retained. When visiting departments, we found applications kept in binders, in personnel files, and in budget folders. We asked SP3s about the appropriate record retention and found that, of those SP3s that kept records, the practice was to keep them "forever."

We attempted to locate the record retention requirement on the City's Record Retention Schedule and found:

- A citywide *General Administration Schedule-Citywide*, dated February 9, 1996, but not signed by the Director of the Arizona State Department of Library, Archives and Public Records. This document states that records are to be retained for one year after calendar year prepared.
- A *Generic State Departmental Schedule* prepared by the Department of Arizona State Libraries, Archives and Public Records. This document

states that Employee Tuition Refund Program Records are to be retained for three years after fiscal year refund is issued.

Without a consistent, implemented records retention procedure for the Tuition Assistance Program, the City is at risk that documents will not be kept according to required schedules. Moreover, there is no assurance that records will be destroyed when appropriate.

We selected a sample of 74 employees (256 applications in total) and attempted to locate the application and grade slip. Of these, 25 applications could not be located (one was subsequently located in Human Resources and another was found in a different department). Of the 233 applications that were found, 20 did not have a grade slip attached. As such, we could not compare the information on the request to the actual grade slip.

Present the Tuition Assistance Program to the Council for Review and Approval

The City Charter provides that the Council, by Ordinance, shall provide for the organization, conduct, and operation of the several offices and departments of the City. As well, the Council is to provide the number, titles, qualifications, powers, duties, and compensation of all officers and employees of the City. To this end, Chapter 14 of the City Code addresses various elements of the functions related to Human Resources management. According to section 14.1, the purpose of the chapter is to:

...establish a system of human resources administration that meets the needs of the people of the city. This system provides means to recruit, select, develop, and maintain an effective and responsive work force...

The purpose statement goes on to state that the system that is to be established is to include policies related to several activities, one of which is the provision of fringe benefits. Article VI of Chapter 14 addresses benefits that the City will provide and includes items such as uniforms, group insurance, retirement, and medical exams.

There is no mention of the City's Tuition Assistance Program in either this section or in Chapter 14, Article VII, Safety – Training. Moreover, there is no language within Chapter 14 that provides the City Manager with the authority to implement fringe benefit programs beyond those authorized, through Ordinance, by Council.

We believe this situation exists because city management has approached issues related to benefits to be an administrative function outside the purview of Council. As a result, the City has incurred an expense of approximately

\$187,000 each fiscal year for the past three years without providing the Council with the opportunity to evaluate the objectives of the Program and review the amount of assistance to be provided. Moreover, Council has not had an opportunity to consider and approve the nature of assistance provided and the terms of eligibility.

Develop a Separate, Written Benefit Plan to Document the Program

Title 26, Section 127, of the United States Code (26USC, Sec. 17) requires that the program must be documented in a separate, written benefit plan. But, the City's Program is not documented in a written plan. Instead, the only guidance available is outlined in an AG, stale-dated Human Resources Brief (HR Brief), and the form "Application for Tuition Assistance" used to request reimbursement. Information is scattered between various documents so there is no single source outlining the Program parameters. Often, important criteria, such as the amount of funding provided for part-time employees, can only be found in HR Briefs, documents that have no standing as a policy document.

Not documenting the Program in a separate, written plan jeopardizes the non-taxable status of the education assistance. Moreover, the failure to create a written plan has created a situation in which there is nothing that documents important information such as how the amount of assistance will be determined each year, the time frame in which tuition assistance will be calculated (i.e., fiscal year or calendar year), who is eligible, what the appeal process is, if any, and who the program administrator is. As well, the lack of a written plan has contributed to inconsistencies in program management because information that is available contains conflicting guidance and there is no source document that can be used to resolve conflicts. Finally, without a written plan to set out expenses that are not eligible for assistance, there is a potential that non-qualified reimbursements could be made.

Provide Reasonable Notice of the Program to Eligible Employees

26USC, Sec. 17, requires the employer to give reasonable notice of the program to eligible employees. Currently, though, eligible employees are not given reasonable notice of the Program. It is not mentioned in the New Employee Workbooks and the Program is not listed on the Human Resources Intranet site that outlines benefits offered to employees. To find mention of it, a reader must know to look on the Intranet page dealing with "learning opportunities." Even at this point, the reader must delve three levels down to find mention of the Program. This information does not discuss eligibility, the amount provided, or list a point of contact if an employee has questions. Efforts to publicize the Program, if any, exist at the department level. Allowing

notice to be driven at the department level may result in greater participation from certain areas, thereby artificially skewing Program outcomes.

SCOPE AND METHODOLOGY

The objectives of the Tuition Reimbursement Audit were to:

- Determine if the Program currently adopted by the City adheres to federal requirements outlined for educational assistance programs.
- Determine if controls currently in place are sufficient to ensure that funds are paid according to guidelines established by the City.
- Determine if any other issues exist which may require review.

We reviewed the United States Tax Code, Internal Revenue Service publications, Human Resource Briefs pertaining to the Tuition Reimbursement Program, Administrative Guidelines, Tuition Applications for three years, and interviewed SP3s and other staff to gain an understanding of the Tuition Reimbursement process. In addition, we analyzed a three-year population of tuition reimbursements to identify any items warranting further review.

We limited the scope of our audit to tuition reimbursements paid during a three-year period from 1999 to 2001. Payroll provided us with a detailed listing of transactions for each year. We also obtained Tuition Assistance listings for the same three-year period from Human Resources to compare to the Payroll information.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, §2-117 *et. seq.*

Objective 1: To determine if the Program currently adopted by the City adheres to federal requirements outlined for educational assistance programs.

Method: Reviewed United States Tax Code Section 127 and 6039D, and Internal Revenue Service Publication 15-B and 95-600. Compared the previous publications to the current City AG 375 and HR Briefs #25 and #63.

Criteria:

- The Program must be a separate, written plan.
- Eligibility requirements cannot favor highly compensated individuals.

- The program cannot offer a choice between educational assistance and other remuneration that would be considered taxable.
- Reasonable notification of the availability and terms of the program must be provided to eligible employees.
- The program cannot cover the cost of tools or supplies that may be retained by the employee at the conclusion of instruction.
- Meals, lodging, and transportation costs cannot be reimbursed.
- Assistance cannot be provided for education involving sports, hobbies, or games unless the course is required as part of a degree program.

Results: The Program is structured within the parameters set out in the U.S. Code. Eligibility does not appear to be structured to favor highly compensated individuals as participants consist of a wide spectrum of employees (i.e., non-management and management). Tuition for graduate course work has been considered additional compensation as required by Code.

The Program is not documented in a separate, written plan. Guidance is outlined in an AG, stale-dated HR Briefs, and the form used to request reimbursement. The amount of funding provided for part-time employees could only be found in HR Briefs, not considered a policy document.

Human Resources Brief – A periodic memo designed to inform managers of fast breaking issues related to human resources management.

SOURCE: Human Resources.

There is no documentation on information such as:

- How the amount of funding will be determined.
- When the cost of tools or supplies can be reimbursed.
- Whether funding is set based on fiscal year or calendar year.
- Who is eligible.
- Why meals, lodging, and transportation cannot be reimbursed.

- What appeal process is in place.
- Who the Program administrator is.

The information available is conflicting. For example, the AG states that assistance will be provided for work related courses and any degree program. The application, however, states that only job-related courses will be reimbursed.

Documentation is silent on the prohibition of reimbursing courses related to sports, games, or hobbies. The same is true on the prohibition of covering meals, lodging, and transportation costs.

Publicizing the Program only exists at the department level. The Program is not mentioned in New Employee Workbooks. There is no mention of the Program on the Human Resources website that outlines benefit programs. To find mention of the Program, a reader must delve three levels down on the Intranet page listing information about learning opportunities. At this point, the information does not discuss eligibility, the amount provided, or who to contact for additional information.

Objective 2: To determine if controls currently in place are sufficient to ensure that funds are paid according to guidelines established by the City.

TEST 1 Compare Payroll Tuition Printout to Tuition Applications

Method: Obtained graduate and undergraduate Tuition Reimbursement Applications for years 1999 through 2001 from Payroll.

Obtained a printout from Payroll listing all payouts during the three years and compared the applications to the printout to ensure that there was an application for each amount distributed.

Criteria: There should be an application for each name listed on the Payroll printout. The totals listed on the Payroll printout should equal the amounts of the applications.

Results: The names and amounts on the applications matched the Payroll printout.

TEST 2 Compare Tuition Applications to Cost Schedules

Method: Using the applications from Test 1, created two spreadsheets, one for graduate and one for undergraduate. Obtained the "Cost per Credit Schedule for Tuition Assistance" (Cost Schedule) from Human Resources for each of the years 1999, 2000, and 2001.

For each application, compared the amount requested to the Cost Schedule, verified that the grade listed met the requirement for a "C" or better, and checked the classification.

Criteria: The Tuition Reimbursement Applications should be completed according to the instructions on the application and the institution and amounts should concur with Cost Schedules.

Also checked each application for the following:

- 1) Appropriateness of justification.
- 2) Applicant signature.
- 3) Supervisor signature.

Results: Of the 1,182 applications, 89 indicated an institution not listed on the Cost Schedules. Only in one instance was Human Resources contacted for concurrence regarding an institution. In total, the City provided assistance in the amount of \$63,708 for coursework completed at institutions that were not listed on the Cost Schedules.

Of the 1,182 applications, 208 were processed with amounts greater than what was listed on the Cost Schedules. Employees were paid contrary to instructions; 10 had no grade and 53 listed "Pass" as a final grade (\$23,560). In total, the City paid out \$27,697 more than necessary.

Twenty applications were questionable, with 5 not listing a course number and 15 with numbers that were indeterminable. Six of the questionable requests had a handwritten classification. One request was for reimbursement of a course taken at "Sylvan Learning Center."

Different Cost Schedules were used by SP3s to pay tuition reimbursements, some current and some not current. Applications turned in late were paid the next year but treated as if they had been paid in the prior year.

Three Spanish immersion classes were paid that included lodging, food, and travel.

Of the 1,182 applications, 364 had job-related justifications, 105 had no justification listed, and 713 had justifications that were not job-related. All applications, with the exception of one, had a signature on the "applicant" line. Seventeen did not have a signature on the "supervisor" line.

TEST 3 Compare HR Tuition Printout to Payroll Tuition Printout

Method: Obtained a detailed tuition reimbursement printout of who was paid and how much from Human Resources for years 1999 through 2001. Compared the Human Resources printout with the Payroll printout previously obtained.

Criteria: The amounts obtained from Payroll and Human Resources should agree.

Results: Amounts did agree and are being charged against the correct account except in one instance. There was a \$750 discrepancy in 1999. Payroll showed a \$750 higher amount spent for tuition reimbursement in 1999 than Human Resources. In 1999, an employee received a payment that was manually processed. Human Resources amounts did not reflect the manual transaction. The application had a hand written note on it indicating that a manual check was processed.

TEST 4 Compare Tuition Application to Grade Slips

Method: A random sample and a judgmental sample were chosen and checked against department SP3 documentation.

Using a spreadsheet of graduate and undergraduate reimbursements, extracted any that showed a "Pass" or no grade. Used the Excel Random Number Generator to select a random sample of 40 employees that had grades and 10 employees from the spreadsheet that showed "Pass" or no grade. Judgmentally chose a sample of 25 employees. Because one employee chosen in our sample appeared in both the undergraduate and graduate categories, we had a total of 74 employees and 256 applications in our sample. We reviewed all of the applications in our sample and interviewed the department SP3s. We compared the information on the applications with the grade slips for name, social security number, institution, course

name, course #, credits, semester/year, SP3 initial, and final grade.

Criteria: The department SP3 should have a copy of the Tuition Reimbursement Application and a copy of the employee's grade slip. The information on the applications obtained from Payroll and the grade slips in the SP3 files should agree.

Results: Of the 256 applications, 25 could not be found in departmental files, 20 had no grade slip attached, and 74 had incomplete information.

We noted that three SP3s signed their own applications.

TEST 5 Interview Department SP3s

Method: Created five questions to ask SP3s to obtain background information on how SP3s process Tuition Reimbursement Applications and maintain their files.

Criteria: Department SP3s should have consistent retention schedules for Tuition Assistant Applications and backup documentation.

Results: Department SP3s did not have a standard on how to keep Tuition Reimbursement Applications and supporting documentation even though the information includes employee social security numbers. SP3s keep applications and supporting documentation in either tuition binders/folders, in department personnel folders, or with budget documents. The department personnel folders may or may not be sent to Human Resources when an employee terminates, but this folder does not appear to follow an employee if they transfer to another department.

Department SP3s were unsure of how long to keep tuition records. SP3s, that had tuition records, were keeping the applications since inception or since the SP3 started processing applications. A common response was that they were keeping them "forever." On the City Clerk's Intranet site, one location states that Tuition Reimbursement Records are to be retained for one year after calendar year prepared. At another location, on the same site, it states that Employee Tuition Refund Program Records are to be retained for three years after fiscal year refund is issued.

APPENDIX A

MANAGEMENT RESPONSE

December 23, 2002

TO: Cheryl Barcala, City Auditor

FROM: Neal Shearer, Human Resources General Manager

SUBJECT: Management Response - Tuition Reimbursement Audit #0202

Thank you for the opportunity to work with you and your staff on the audit of the Tuition Reimbursement program. This audit is helpful and on target with many key issues and recommendations. The management response to specific recommendations is attached.

Many employers, including surrounding cities, offer educational assistance programs to develop employees and to remain competitive. The City of Scottsdale has utilized tuition reimbursement as a longstanding component of our commitment to provide training and development opportunities for employees, including general education. This is consistent with the Human Resources section of the City Code, which expresses a policy commitment to training and development and which allows for reimbursement of training costs as provided for in administrative guidelines (City Code 14-122). However, it is essential that we develop better performance measures and implement a more comprehensive set of regulations to manage the tuition reimbursement program.

The decentralized approach to managing tuition reimbursement that has existed for several years is inconsistent with today's heightened expectation for prudent program oversight, controls, and efficiencies. I fully concur that the program needs to be centrally managed within Human Resources (HR) to ensure that it is meeting program objectives consistent with annual funding authorization. Toward that end, HR will begin to assume program management and oversight responsibilities in January 2003, specifically-- the review and approval of all requests for tuition reimbursement payments to employees. HR will absorb these added administrative duties with existing staff by reprioritizing and reallocating work assignments.

While the change to centralize program management within HR will address immediate management and control issues, a new Administrative Regulation (AR) on tuition reimbursement will be finalized for implementation in July 2003, subject to City Manager approval, to address the balance of the audit recommendations. This will allow a reasonable transition period before the new AR is implemented to communicate changes to departments and the employees who utilize the tuition reimbursement program.

The July 2003 implementation will also facilitate the shift of the tuition reimbursement program from a calendar year to a fiscal year operating cycle. This will allow program funding to be reviewed, prioritized, and authorized in conjunction with the annual citywide budget process, a shift that is extremely important given the City's increasingly tight fiscal condition.

C: Jan Dolan, City Manager